

Birkbeck Institute for Lifelong Learning  
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# Financing of Higher Education in a Turbulent Economy:

Challenges for the United States  
and the United Kingdom

Donald E. Heller

PENNSTATE



COLLEGE of EDUCATION

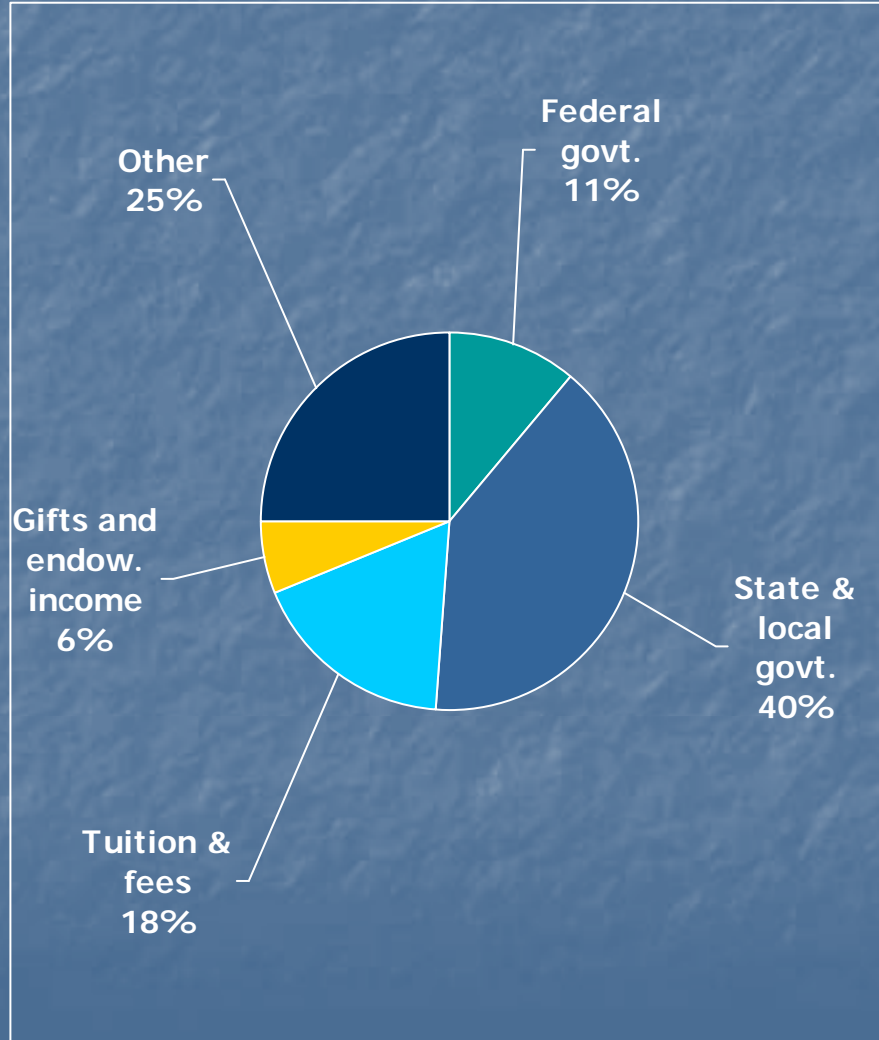
CENTER FOR THE STUDY OF HIGHER EDUCATION

## Snapshot of tertiary education in the U.S.

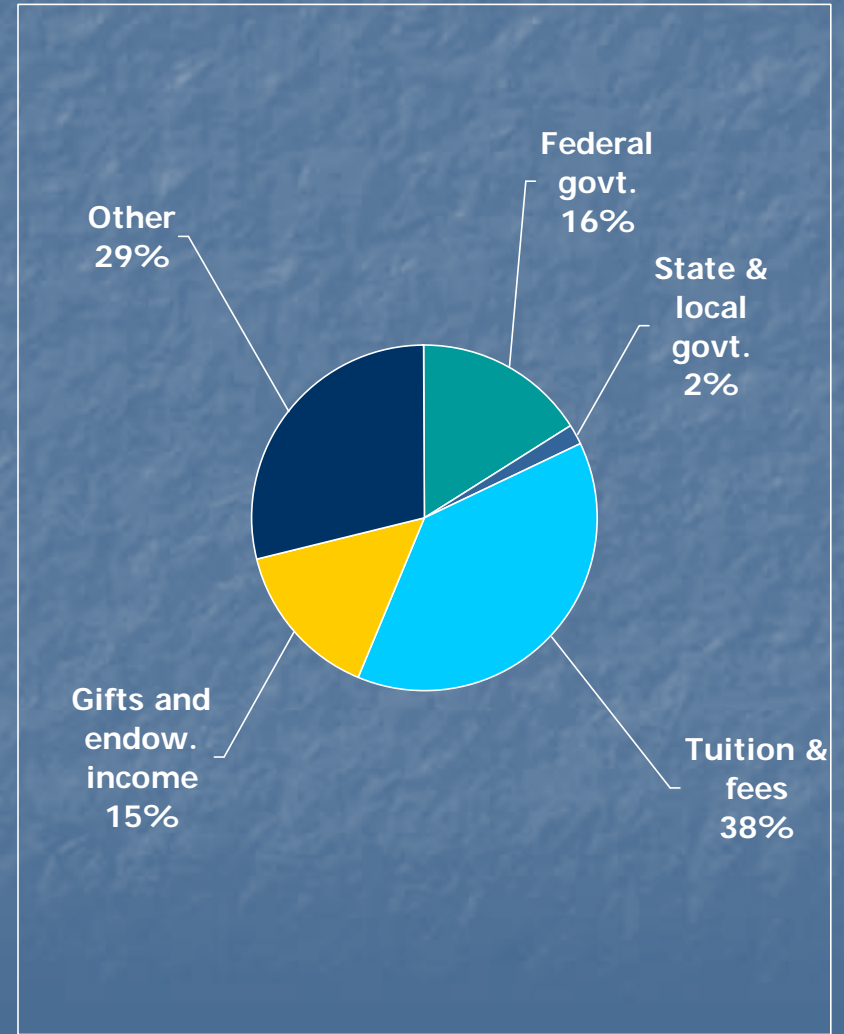
- 4,200 accredited institutions (40% public/60% private)
- 18 million students
  - 75% in public institutions, 25% private
- 1.5 million bachelor's degrees
  - 700,000 sub-baccalaureate degrees/certificates
  - 700,000 post-baccalaureate degrees
- 3.4 million employees (1.3 million faculty)
- Expenditures: approx. \$325 billion in 2004-05 (£224 billion)

# Sources of revenues, 2000-01

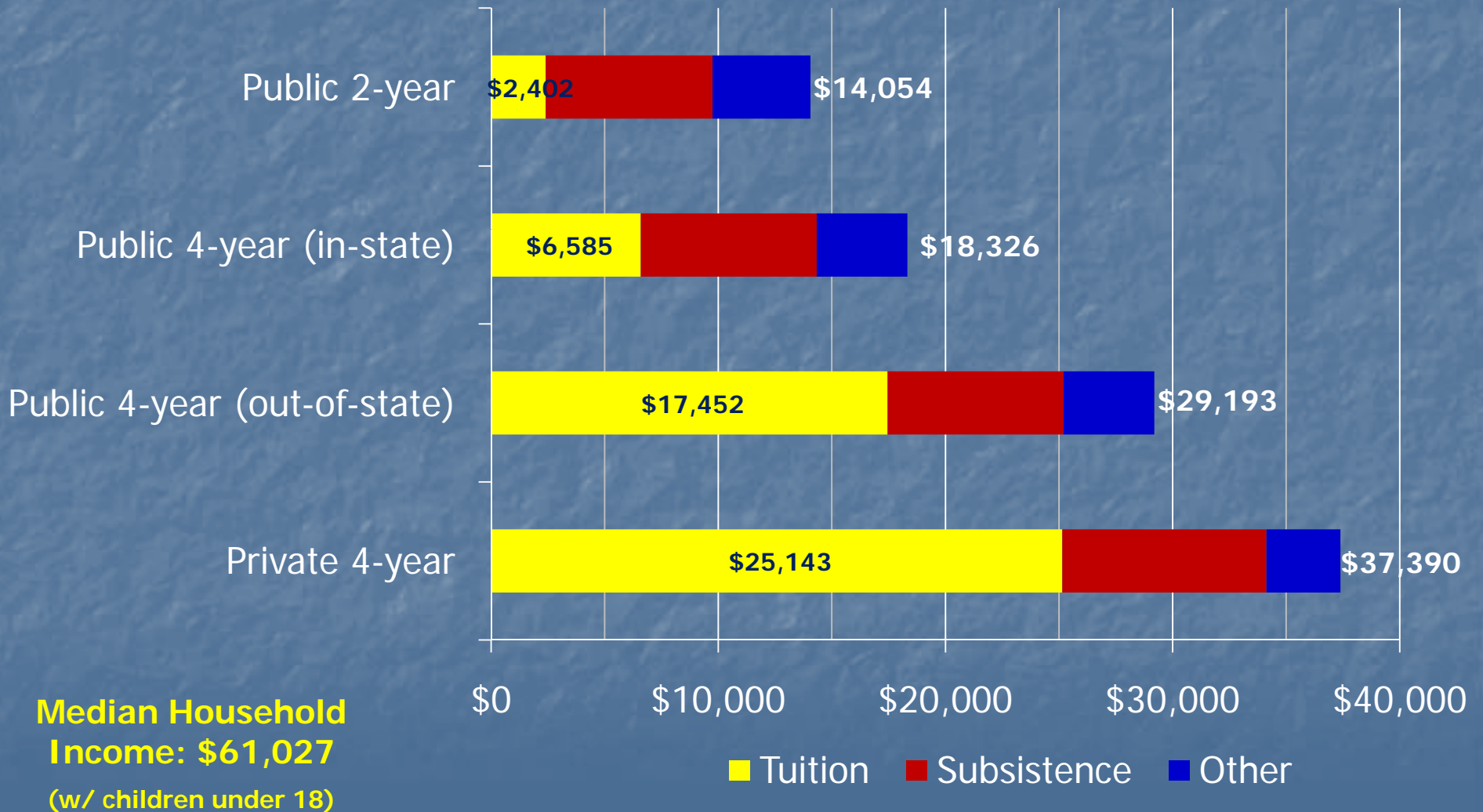
## Public



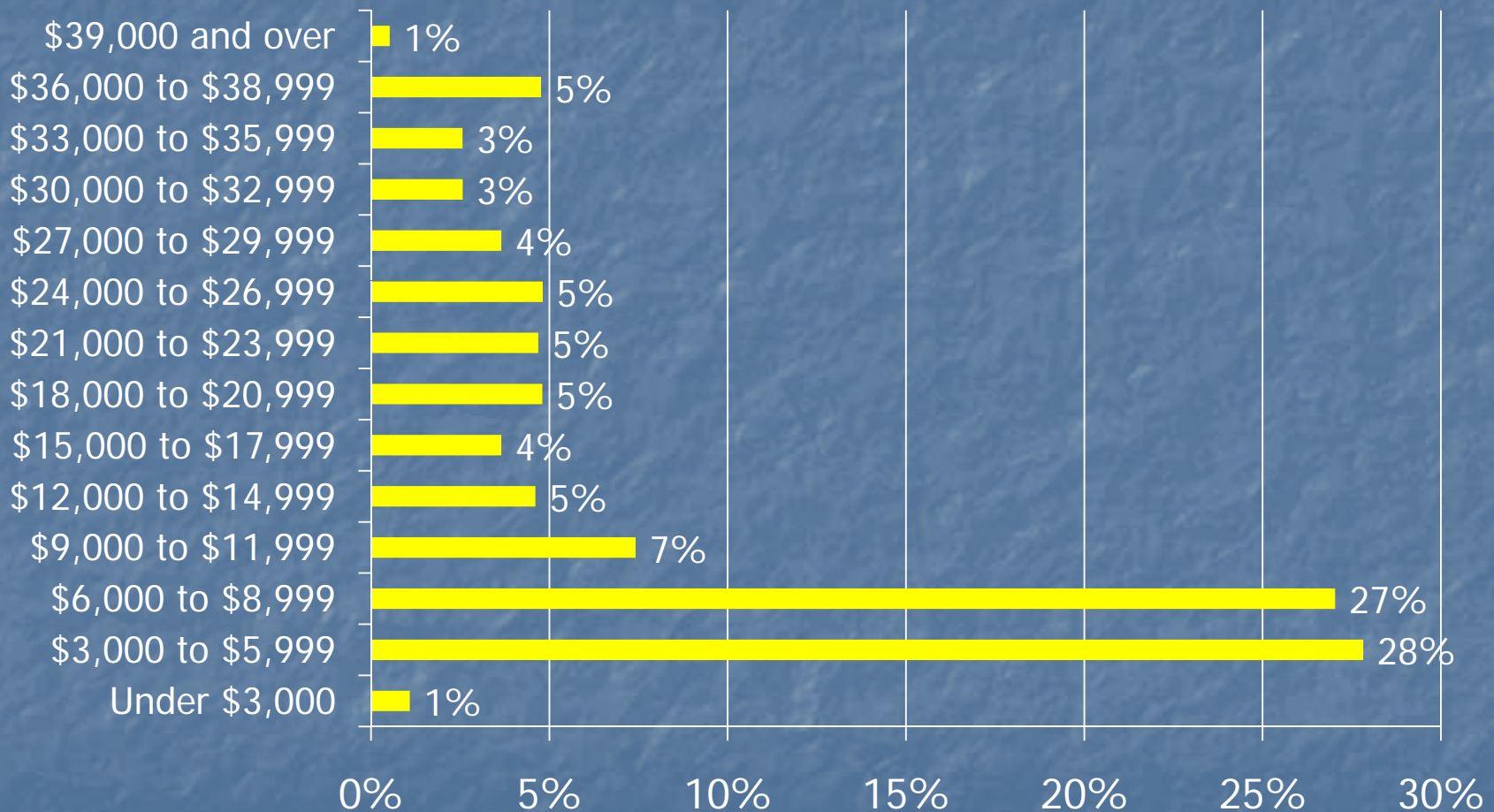
## Private



# Average cost of attendance, 2008-2009



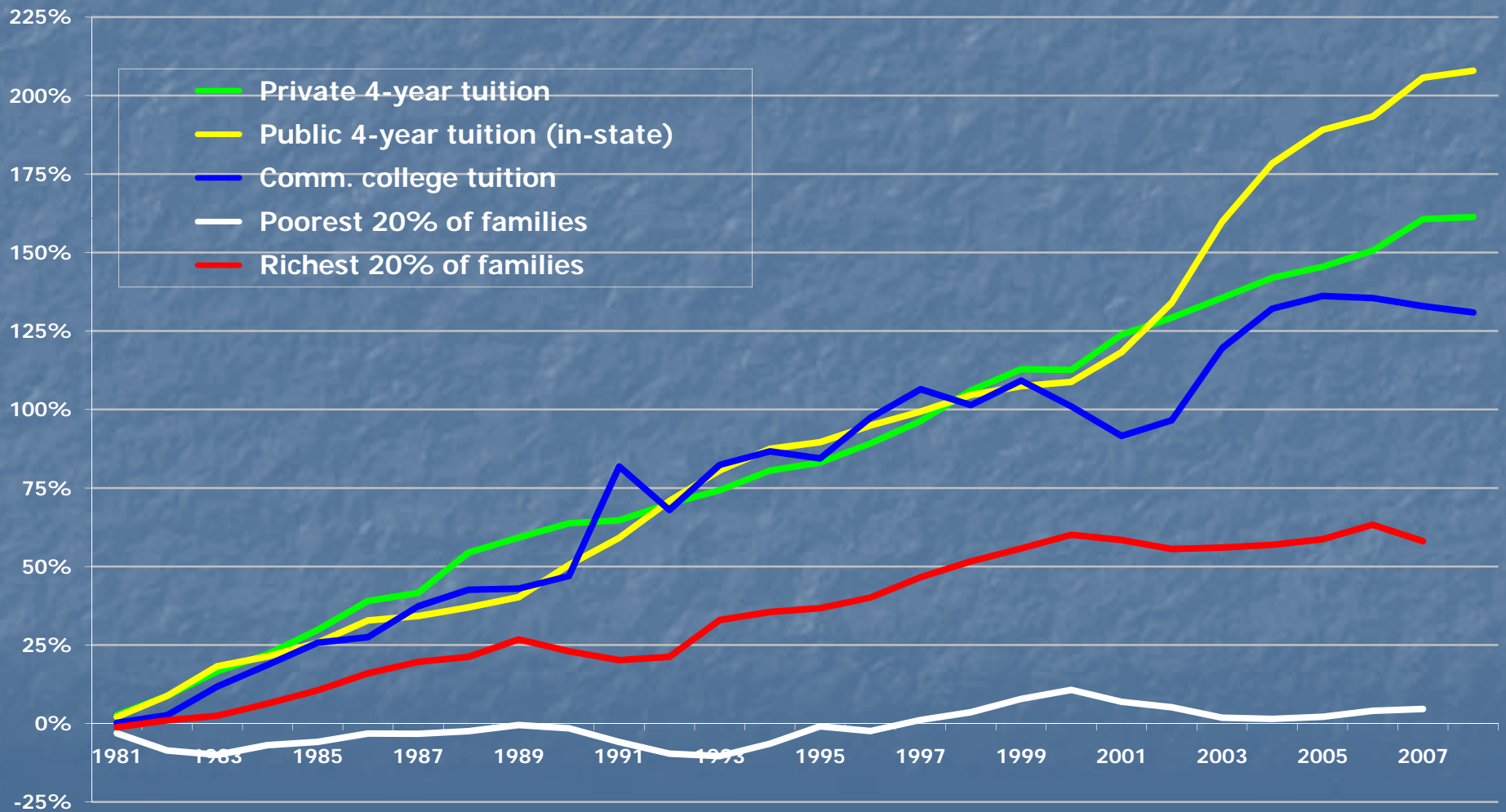
## Distribution of students by tuition paid (4-year institutions)



Total does not sum to 100% due to rounding

# Changes in tuition prices and income

Increase since 1980, **constant** dollars



## Comparison of affordability

	<b>Tuition</b>	<b>Median income</b>	<b>% of income</b>
England	£3,200	£26,000	12%
U.S. – 2-year	\$2,402	\$61,027	4
U.S. – 4-year public in-state	6,585	61,027	11
U.S. – 4-year public out-state	17,452	61,027	29
U.S. – 4-year private	25,143	61,027	41

# Fees and financial aid

## 2003-2004 undergraduates, billions of dollars

Students attending one institution  
full time (7.1 million, ~50% of all UG)

### Fees paid (for all)

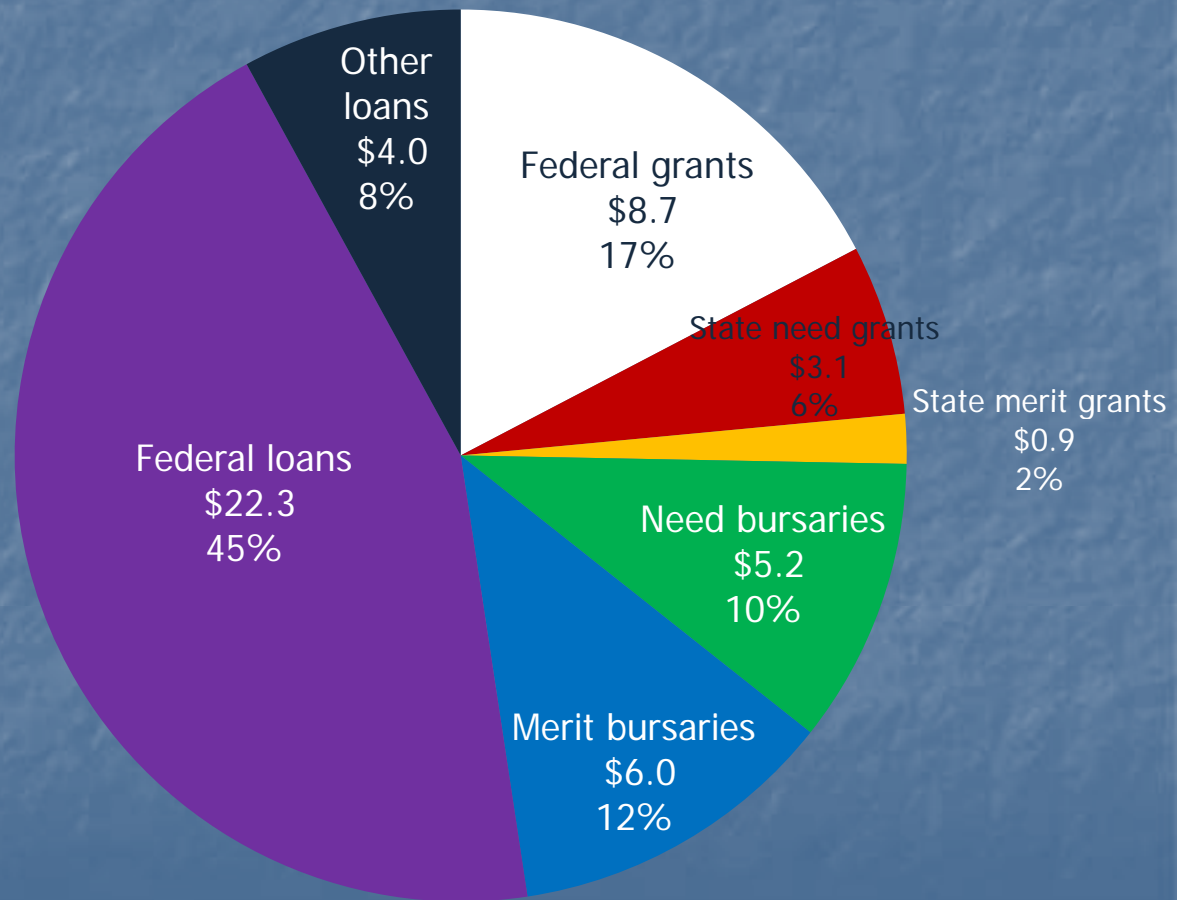
**Total: \$123B (£85B)**

**Mean: \$17,150 (£11,828)**

### Financial aid

**Total: \$50B (£34B)**

**Mean: \$7,000 (£4,827)**



## What hath the last 12 months wrought?

- An economic recession unprecedented in most of our lifetimes
- Cuts/constraints on university revenues from many sources
- Announcements of hiring/salary freezes, redundancies, and the like
- Concerns about continuing participation in higher education
- A great deal of anxiety and uncertainty

## Parameters of the recession (U.S. and U.K.)

- Large drop in asset values, with no good sense of where the bottom lies
- Constraints on credit
- Increasing redundancies and unemployment
- Government bailout of financial sectors, causing a drain on public resources

## Constraints on university revenues – U.S.

- Drop in endowment asset values over last 6 months of 2008 – ~25% – with continued drops projected
- Mid-year cuts in *this year's* state government funding
  - Penn State U: 6% (\$21 million)
  - Arizona State U: \$63 million
  - U. of Arizona: \$56 million
  - U. of Illinois: \$18 million
- Drop in families' resources – ability to pay tuition
  - Income
  - Financial assets
  - Home equity

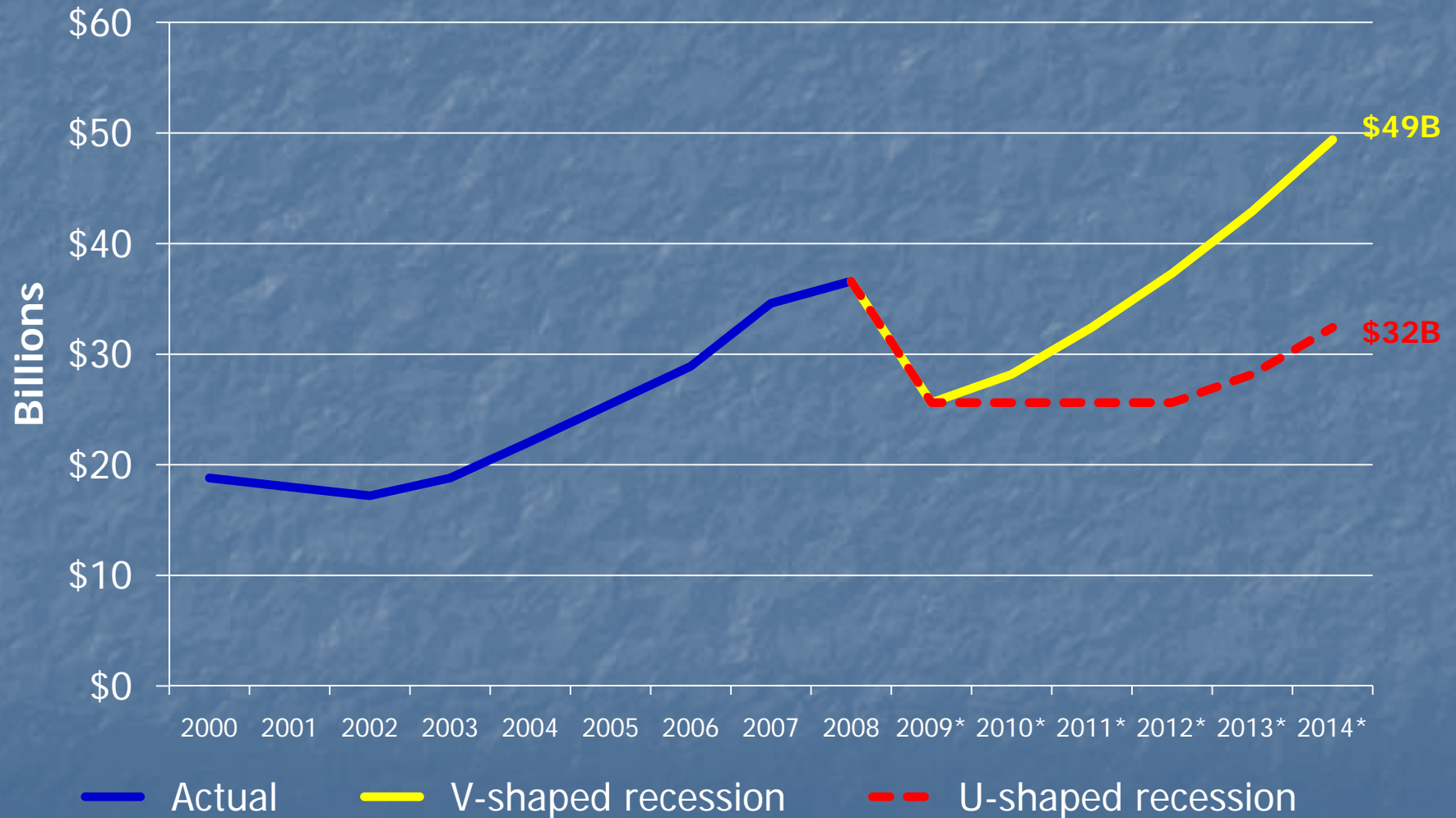
## Impact of revenue constraints – this year

- Endowment decrease → reductions in subsidy for operating budgets
- Increased demands for financial aid
- Announced redundancies, furloughs, buyouts, and salary/hiring freezes
  - Redundancies: U. of Vermont, Clark Atlanta U. (70 faculty, including tenured), Arizona State U. (550 positions)
  - Freezes: U. of Missouri, Penn State U., MIT, Harvard

# Next academic year and beyond

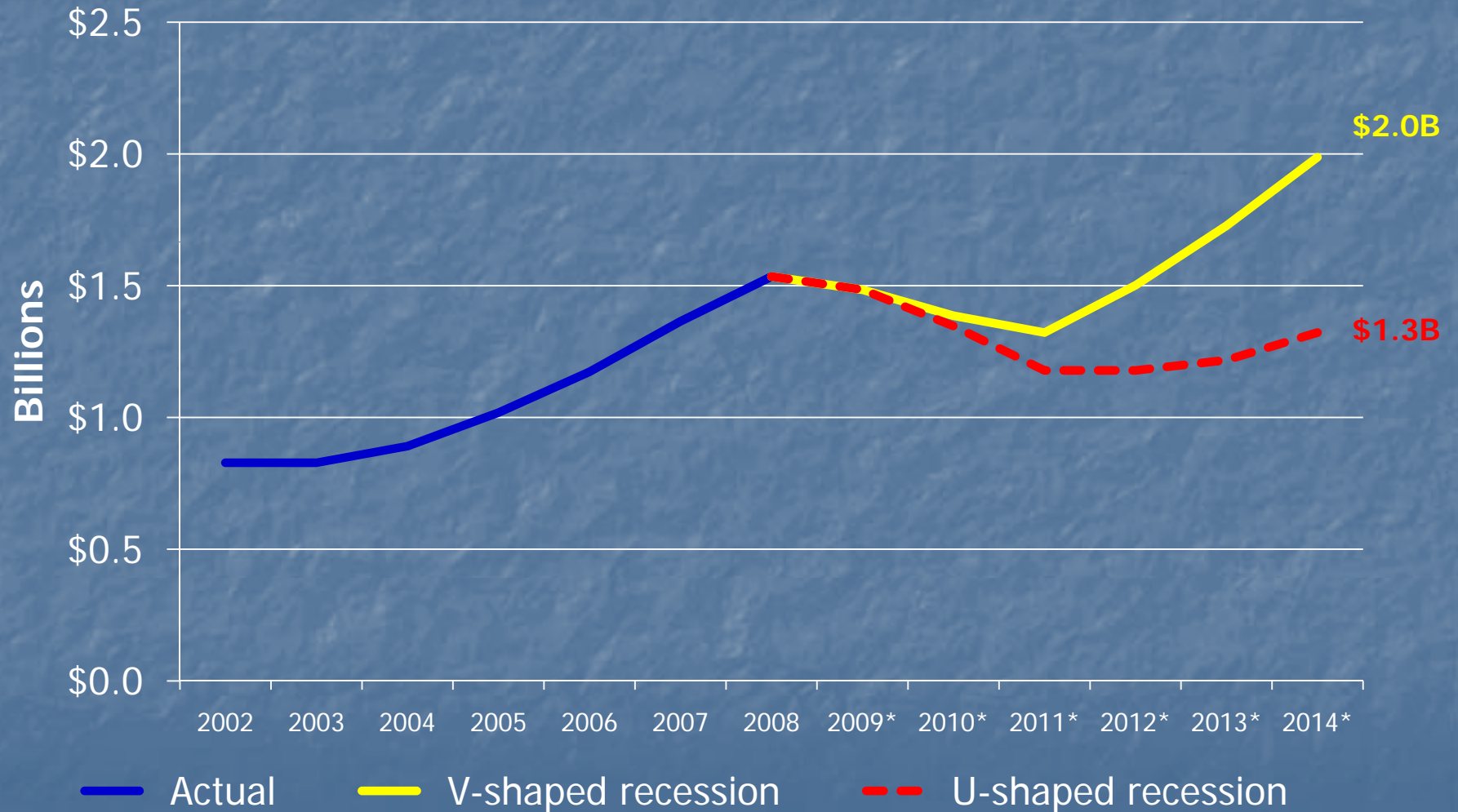
- Uncertainty over
  - State funding in public universities
  - Endowment values
  - Financial aid availability (loans and grants)
- American Recovery and Reinvestment Act (ARRA)
  - \$17B for federal Pell Grants (increase from \$4,731 to \$5,550 in 2010)
  - \$16B in additional research money
  - Up to \$50B to states that can be spent on education

# Endowment value – Harvard University



\*Projected

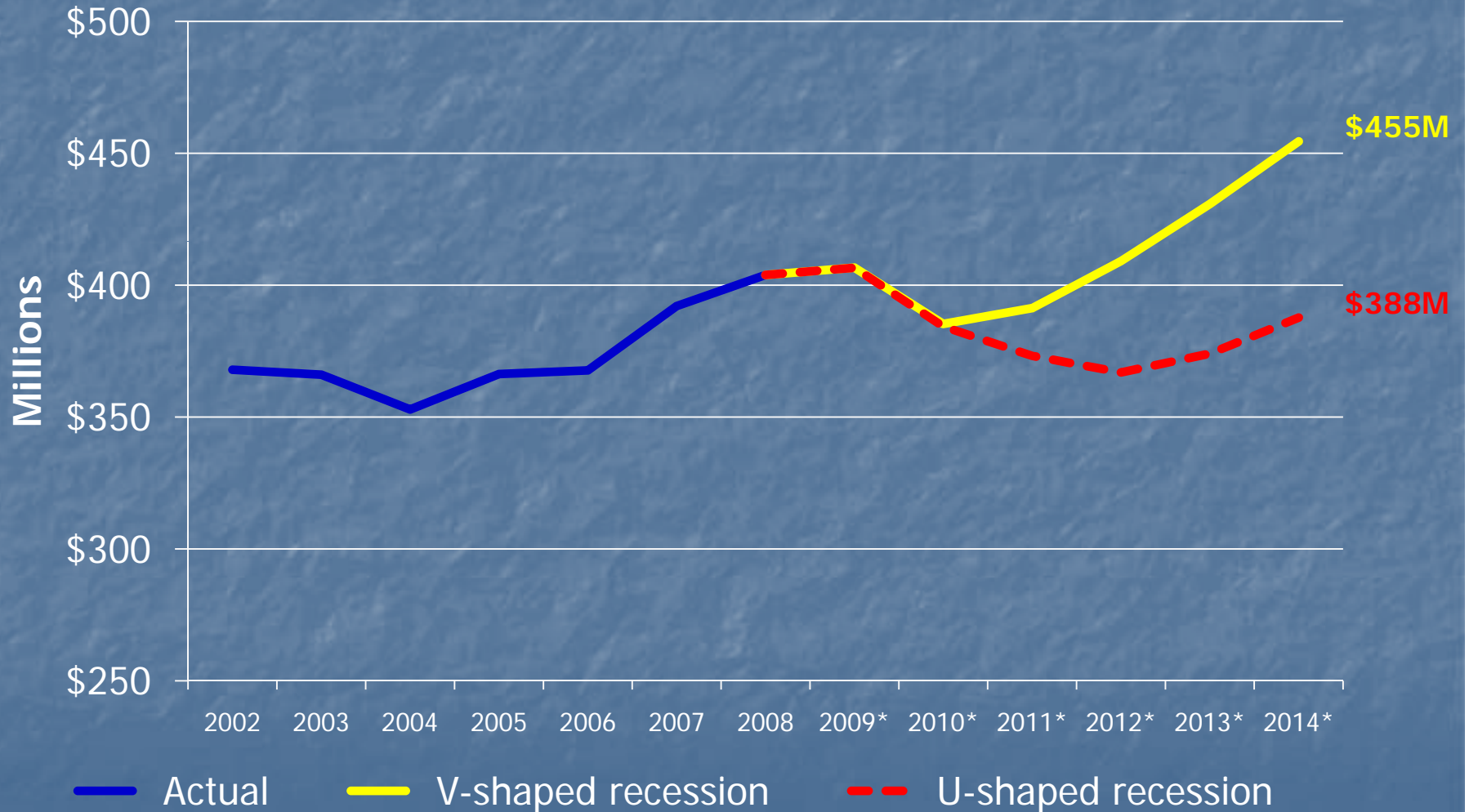
# Endowment payout – Harvard University



4.6% payout rate, 3-year average

\*Projected

# Endowment payout & appropriations – Penn State



\*Projected

## Concerns about participation in higher education

- Constrained resources (assets and income) for students and their families
- Constraints on grant aid, other than Pell Grants
- No increases in loan limits (dropped from ARRA)
- Restrictions on private student loans
- *But*
  - Opportunity costs are down, as labor market opportunities disappear
  - Applications for the fall still appear strong, but uncertainty about how many students will actually enroll

# England and the U.S.

## ■ Differences in England

- One, rather than 51, sources of public funding
- Government control of fee caps
- One loan provider
- Maintenance grants that are structured as entitlements, with strong government support
- Politically powerful unions (staff and students)

## ■ Similarities

- Competition for government resources
- Some constraints on student contributions

## Questions and discussion

<http://www.personal.psu.edu/deh29>